



Testimony of the Michigan Chemistry Council
before the Michigan House Energy Policy Committee
Monday, April 13, 2015

Mr. Chairman and Members of the Committee,

About the MCC

My name is John Dulmes, and I'm the Executive Director of the Michigan Chemistry Council (MCC). I appreciate the chance to talk with you today about the importance of a competitive energy policy to Michigan's chemistry companies and our employees. Chemistry is our state's third-largest manufacturing sector, and our companies support nearly 120,000 Michigan jobs and generate \$127 million in state and local taxes. 96% of all manufactured goods are directly touched by the business of chemistry, making our industry essential to every facet of Michigan's economy.¹

Energy and Chemistry

Energy is central to our industry in three basic ways.

- **First**, energy sources, including natural gas in particular, are the raw materials for much of our chemistry. Our companies transform a handful of basic feedstocks into an amazing array of innovative products for homes, vehicles, clothing, packaging, and more.²
- **Second**, many chemical production processes are inherently energy intensive. It takes a great amount of energy to split apart molecules into their component parts and reassemble them into something completely different. To put our industry's energy use into a larger perspective, the chemical sector accounts for 29% of the energy used in *U.S. manufacturing*,³ and roughly 10% of total energy demand *worldwide*⁴ (consequently, because of our energy needs, our companies are naturally and exceptionally motivated to become more energy-efficient).⁵
- **Third**, our industry plays a critical role in helping everyone else produce, conserve, and store energy. Whether it be enabling the next generation of wind turbines or photovoltaic solar panels, in fabricating lightweight and fuel-efficient vehicles, in making new homes and buildings that use vastly less energy than older ones, or in revolutionizing battery technologies, chemistry products make it all possible.

We are proud of Michigan's chemistry innovations, and given the importance of energy to our industry, we look forward to sharing our thoughts on the other energy issues the legislature is also considering.

Energy Competitiveness

Today, however, as the Committee hears comments about the issue of electric regulation in Michigan, we wanted to specifically encourage you to focus on achieving energy competitiveness. While we have heard a lot of discussion around what would be the best energy policy for our state, we don't think there has been enough acknowledgment that energy policy must be a competitiveness issue that drives jobs, investment, and long-term economic growth.

Let me illustrate how our members look at this issue.

¹ <http://www.impactchemistry.com/mystate.aspx?state=MI>

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³ <http://www.eia.gov/consumption/manufacturing/briefs/chemical/>

⁴ <http://www.icca-chem.org/ICCA0605/ICCA%200605map%200605initialy.pdf>

⁵ Since 1974, the chemical industry in the United States has halved its energy use per unit of production.

- In recent years, our industry has experienced the dramatic impact of the shale gas revolution that has spurred a revival of American chemistry. It has been estimated that by 2023, hundreds of new U.S. chemical industry projects will bring in \$138 billion in capital investment; support 383,000 jobs; produce \$266 billion in new economic output; and return \$19 billion in tax revenue for federal, state, and local governments.⁶ While much of this growth will be clustered in the Gulf states, Michigan and many other states will reap significant benefits as well (plentiful supplies of natural gas, of course, will also help us to address our energy transition away from coal-fired generation).
- Simply put, competitive energy (with regard to natural gas) has helped make our country competitive once again, and manufacturers are increasingly growing jobs in America rather than overseas. This is a tremendously positive story.

Now let's consider the energy situation for our state, specifically with regard to electric rates. By any measure, Michigan is not competitive on rates, and hasn't been for a while. In 2014, Michigan's electric rates were the highest in the entire Midwest, and above the national average. In fact, according to the MPSC, when compared to the 10 largest states in the nation, *"Michigan's rates were third highest among these states in 2014"* – behind only CA and FL.⁷

These numbers make a real difference for jobs and growth. For most of our Michigan member companies, energy costs rank in the top two or three areas of concern for their annual operating budgets. The chemical industry is truly a globalized market, where companies vie for competitive advantage, cost efficiencies, and market share. We regularly hear from our members that Michigan's electric rates are much higher than in other states in which their companies do business. As a result, while our plant managers greatly want to expand in Michigan, it is often hard for them to justify such investment when their facilities are paying more for electricity than in other states. High energy costs are a direct tax on jobs and growth.

Competitive Energy Policies

So what can be done about this problem of costly energy?

We support both market competition and effective regulatory oversight. To begin with, our members urge you to preserve the current 10% competitive retail market, which we believe is a customer-driven method of controlling costs and improving utility performance. We do recognize that Michigan will have to meet new energy demands in the future. As a result, we also believe that all energy solutions should be allowed to compete on a level playing field with an open, transparent competitive bid process that can best evaluate both supply and demand-side resources.

Michigan should also make better use of highly-efficient combined heat and power (CHP) technologies, and explore how to facilitate increased distributed generation and self-generation. We agree with many others that the electric grid of the future will not likely resemble the one of the past. And just as very few among us expected the benefits that the shale gas revolution has delivered, we believe that we should leave the door open to the unanticipated energy developments of the future.

On the regulatory side, effective oversight must be a necessary complement of cost control. We believe that electric rates should be based on true cost-of-service principles using actual costs, and that the MPSC should have to act on any proposed rate increases before their taking effect. We also support the elimination of the unusually high fees, surcharges, trackers, decoupling mechanisms, and other extras that hike Michigan's rates well higher than those of neighboring states.

In conclusion, Michigan's chemistry companies know firsthand how important is the difference between competitive and costly energy. We believe that with the right policies, we can meet our state's future energy challenges in a responsible and cost-effective way. We look forward to being a constructive part of the conversation going forward.

⁶ <http://www.americanchemistry.com/Policy/Energy/Shale-Gas/Shale-Investment-Infographic.pdf>

⁷ "In 2014, Michigan's average industrial retail rates ranked the highest among the six Midwest states at \$0.0778/kWh."

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